

IMG/R-19
Control No.
August 1954

SECOND ANNUAL PROGRESS REPORT OF THE IMG

1 July 1953 - 30 June 1954

I. Responsibilities of the IMG

Within its Terms of Reference, the Intelligence Working Group (IWG) 1/ is responsible for ~~providing~~ mobilization of economic data and analyses relevant to needs of the Economic Defense Advisory Committee (EDAC), for recommending to appropriate agencies collection requirements to fill specific gaps, and for providing EDAC with reports and current intelligence. The following provides a report on IWG activities and accomplishments during the past year and a statement of IWG problems and objectives. The wide range of IWG interests and activities is reflected in the list of cases (Tab A) formally placed before the IWG during the period.

II. IWG Activities and Accomplishments

A. Mobilization of Economic Data and Analyses

Under this responsibility, the IWG devoted attention to several specific problems in the economic defense field:

1. Soviet Financial Operations: An IWG subgroup was organized, under chairmanship of a Treasury representative, on the subject of external

1/ The IWG was established at the request of the Director of Mutual Security and the Secretary of State, and with the approval of the Director of Central Intelligence and the Secretary of Defense. Its Terms of Reference were approved by the IAC on 25 July 1952 (IAD-D-53/1, as amended). For further details, see IMG/R-13, "First Annual Progress Report of the IWG".

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financial operations of the Soviet bloc. This subgroup was asked to study and report upon the need for and the adequacy of intelligence in this field. Its findings were incorporated in an ING report of 11 March 1954 which was furnished to the Executive Committee of EDAC for appropriate action and to the Economic Intelligence Committee for information.

2. Soviet Offers of Strategic Materials - During this period, the ING was called upon by an EDAC working group to provide intelligence required at the policy planning level for an NSC determination of US policy towards Soviet bloc offers of strategic materials to the West. Intelligence agencies were requested, through the ING, to appraise the significance of Soviet offers of manganese, chrome, platinum and palladium.

An ING report covering the Soviet bloc supply position in these metals, offers to the West, and an appraisal of Soviet intentions underlying the offers was furnished to EDAC. This paper was supplemented by one on Soviet offers of petroleum and petroleum products to the West (see below).

3. Soviet Petroleum Offers - Joint requests from OSD and FOA/WDAC formed the basis for an intensive CIA effort on this subject. Information was desired on the Soviet bloc petroleum supply position, its refinery capacity and techniques, bloc transportation facilities, its offers of petroleum and petroleum products to the West, and the intentions underlying these offers. A CIA-produced report was furnished EDAC for use in an overall analysis of the significance and implications of Soviet offers of strategic commodities to the West.

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4. Soviet Consumer Goods Project - During the review period, the intelligence community in general, including the IRG, was called upon to provide guidance and information to appropriate Government levels on the true meaning of the "New Course" in the domestic economies of the several countries of the Soviet bloc. From official Soviet pronouncement, it became apparent that increased supplies of consumers' goods were to be made available to the Soviet populace, both through domestic production and imports. Accordingly, the National Security Council and cognizant agencies were faced with the following problem: should the US seek to exchange Government-owned perishable surplus agricultural products on a barter basis with the USSR or its satellites in Europe in exchange for non-perishable materials needed by the US on some reasonable basis of price?

CIA was requested to submit for EDAC consideration a list of non-strategic consumer goods having certain characteristics which would make them appropriate for licensing to the European satellites to decrease the political and economic unity of the Soviet bloc. Through the aegis of IRG, a CIA study on the availability of consumers' goods in the Soviet bloc was provided to the Executive Committee. It was the consensus of

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Free World, the Consultative Group (CG) [REDACTED] in April 1954 agreed that it would be desirable to devote increased attention to any changes in the tactics of the Soviet bloc in East-West trade generally. This surveillance was deemed necessary to take account of developments likely to affect the operation of strategic export controls and to enable Western countries to counter Soviet economic and political penetration.

The IMG had anticipated the need for work in this field as early as September 1953 when consideration was given to an interagency study on the Soviet trade offensive. An IMG case on "Proposed Study of Soviet Trade Activities and Tactics in Non-COCOM Areas" was drafted in that month, but work was not commenced due to the pre-occupation of member agencies with a related intelligence study, NIE 10-54, "Soviet Capabilities for Economic Warfare." The IMG, aware of the urgency of intelligence on this subject, endeavored at intervals to elicit guidance from the Executive Committee as to its intelligence requirements on this subject. The subject was considered at no less than seven meetings during the period September 1953 - June 1954, and a bibliography of forty-five articles on changing Soviet trade and economic policy was circulated in May 1954.

These discussions in the IMG, together with papers on various facets of the Soviet trade problem prepared in State and MDAC, served as the basis of draft papers prepared for submission to COCOM pursuant to the CG agreement to discuss Soviet trade trends and tactics. MDAC has indicated that arrangements will be made through the IMG for preparation of additional papers on this subject for the fall session of COCOM.

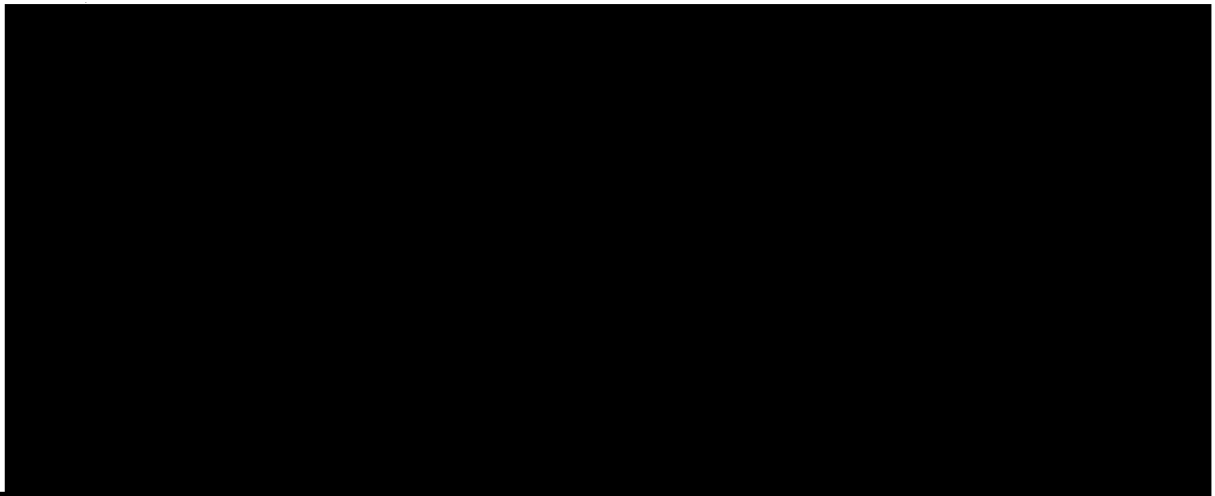
~~Excluded Intelligence~~

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B. Intelligence Collection and Utilization

During the year, IWG re-newed its efforts to establish a comprehensive pattern of US Government requirements for the covert collection of economic defense information. (See Tab E). Proposed instructions



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The IWG also reviewed, but reached no conclusions, on the EDAC Executive Committee request for a statement of recommendations for corrective action on the problems of inadequate priorities for the collection, and undue delay in the transmission, of economic defense information (See Tab E for details).

C. Preparation of Reports

During the year, IWG produced eighteen studies (See Tab E), nine of which provided information to be used by EDAC-ACEP structure in determining the strategic rating of specific commodity items. To facilitate analysis of the best available intelligence, an IWG Commodity Analysis Checklist was prepared and distributed for use by member agencies. This Checklist was used as a guide in preparing intelligence contributions required in determining the significance of specific commodities to the Soviet war potential. New techniques were adopted for production and coordination of

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commodity analyses (Tab E). Efforts were made to obtain more adequate military intelligence for use in connection with the recent comprehensive review of the international security control lists (Tab E).

D. Current Intelligence Support

IRG has continued to furnish EDAC agencies with significant items of current intelligence (See Tab C). In addition, current intelligence on East-West trade diversions is being provided by the Strategic Trade Branch (D/E/RR). This unit was established in response to the recommendation of the IRG for an intelligence unit within CIA to provide intelligence for the implementation and enforcement of Free World economic defense measures. Through these facilities a quantity of information has been accumulated, analyzed, and transmitted to action agencies, consisting of spot intelligence on diversion or other illegal procurement attempts, and collated analytical case reports on transactions and/or firms and individuals participating in such transactions.

25X1B Through its representatives on IRG, the Office of Naval Intelligence continued to contribute significant items of current economic defense intelligence to the EDAC. [REDACTED]

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Tab D.

III. Major Problems and Objectives

A. Status of Activity

~~NO AVAILABILITY~~

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The tempo of ING activity fluctuated widely during the report period. The severe decline during the second ~~half~~ half of the year, ~~reflected~~ reflected in the initiation of only three cases compared to twenty during the July - December 1953 period, can be traced primarily to the preoccupation of member agencies with the security list review. Few problems, other than the list review, considered by EDAC during this period were suitable for ING. There were several instances, however, (such as the problem of differential controls between the European Soviet bloc and Communist China) in which the ING could have rendered intelligence support. In this particular case, CIA was called upon by the Far Eastern Economic Defense Working Group of EDAC for direct support, rather than a request being levied through established ING channels. This indicates a feeling on the part of EDAC that intelligence support could be obtained more quickly by direct levy on CIA, rather than through ING channels. It is suggested, however, that the basic deficiency lies not so much in the ING mechanism as in the fact that intelligence research within the US Government is not oriented in a manner to provide a quick response to the needs of the economic defense program. Research is, rather, concentrated primarily on departmental intelligence needs and through the medium of EIC, on long-range research of common concern.

Another reflection of this deficiency of orientation and emphasis was revealed in the OIR/State proposal (Ref: ED/EC D-60 of 21 June 1954) that the Executive Committee approve the undertaking of a research program in the field of economic defense during fiscal year 1955. Referenced memorandum outlines a program for a research staff in OIR designed to provide EDAC with direct support in both basic and current operating

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To stimulate the continued use of ING as the agreed mechanism of intelligence support, special summaries of ING activities were published in January, March and May. These directed the attention of ING and Executive Committee members to specific problems of economic defense on which ING had an intelligence support responsibility.

B. Objectives for Coming Year

With the substantial completion of the security list review by the end of June 1954, EDAC has indicated a renewed interest in the utilization of ING facilities. MDAC has already requested the ING to: recommend the establishment of suitable mechanisms and surveillance techniques to trace the movement of those strategic items decontrolled during the COCOM negotiations; assemble and assess the adequacy of all intelligence contributions furnished the Joint Operating Committee during the list review so as to make available a "known universe" of commodity intelligence from which further analysis can proceed; develop additional intelligence on the subject of Soviet trade trends and tactics as a basis for preparation of papers to be submitted to the fall session of COCOM; and, review the problem of EDAC requirements [REDACTED] with a view to establishment of a central staff responsible for assembly and publication of such information. Work is also required of ING in determining the adequacy of indoctrination of covert intelligence collectors as to the ~~high~~ objectives and requirements of the economic defense program. It is also likely that ING will be called upon to inquire into the intelligence aspects of a national economic warfare plan, now being considered at the Executive level.

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INQ activities during the year ahead, as during the review period, will be guided by NSC 152/3. This statement of US Policy in the economic defense field placed increased emphasis on improving the availability and utilization of current intelligence in matters relating to enforcement of free world controls, and in developing ancillary measures to improve implementation and enforcement of agreed control systems. It is hoped that higher priority can be given by the intelligence agencies to the collection of intelligence required to implement the tasks outlined in NSC 152/2, and that INQ and the EDAC can collaborate more closely in fulfilling their respective missions in the field of economic defense.

Tab E

PROBLEMS OF INTELLIGENCE COLLECTION AND UTILIZATION

I. Production of IIG Reports

A. To maximize intelligence support to the security list review which occurred in connection with COCOM negotiations, a new procedure was adopted to supersede the previous arrangement under which the Office of International Trade (later BFC) had assumed responsibility for combining intelligence contributions from various agencies and writing a single paper containing technical definitions, intelligence and strategic rating recommendations. This new procedure provided for the preparation within the IIG of a paper incorporating intelligence on Soviet bloc, uses, production capabilities and shortages, with a second paper containing technical information only being prepared in BFC. This procedure resulted in a marked improvement in the IIG intelligence product and was utilized until the accelerated security list review made IIG processing of commodity papers impracticable.

B. During the recent Trilateral and COCOM/CG review of the security lists, the following criteria were used in placing items on embargo: Materials and equipment (1) designed specially or used principally for development, production or utilization of arms, ammunition, implements of war and atomic energy materials; (2) which incorporate advanced technology or unique know-how, the acquisition of which may reasonably be expected to permit a significant advance in Soviet bloc technology in military or atomic energy production over the level of development already achieved or expected to be achieved within a short period; and, (3) in which the Soviet bloc has a deficiency which is

Tab E

critical in relation to its military capabilities and which it could not overcome within a short period. An item could be placed on international embargo only if one of the above criteria were met. It was essential, therefore, that information pointing up the direct, or close indirect, military application of particular commodities be made available to the U.S. Delegation.

To elicit additional information of this nature, discussions were held between representatives of the military services and the Chairman, IAG. The results of these discussions were not entirely satisfactory and revealed that departmental intelligence needs were accorded priority over economic defense needs at an especially critical time.

C. A related problem in the production of commodity analyses has been that of obtaining approval for release of information for use in negotiations with foreign nationals. This problem applies to all intelligence, but particular difficulty is encountered in the case of intelligence falling within the category of "classified military information." A series of meetings were held, therefore, with military members of the IAG to discuss the application of SD-MICC policy governing the release of military information to foreign nationals. It was agreed that each of the military intelligence services has the authority in application of SD-MICC policy to permit release of the kind of military information generally found in IAG papers. Furthermore, such information generally is of low classification and is, therefore, releasable.

In light of this knowledge, an effort was made to acquaint military security officers with the facts that (1) the utilization of "classified military information" is for the purpose of obtaining a quid pro quo in

Tab E

the form of restrictions on strategic exports, and (2) inability to use such information would defeat the objectives of US economic defense policy.

D. It developed during the year that responsibility for production of IEC studies fall principally on CIA (Economic Defense Division, ORR), with other member agencies making comment or providing additional intelligence on a limited basis. Of the eighteen IEC studies completed during the review period, CIA initiated and completed thirteen. IEC subgroups prepared three, with the remainder being joint products of CIA and OIR. Written comments on draft IEC working papers were received only from the NSA and APOIN representatives.

II. IEC Efforts to Increase Intelligence Collection

The First Annual Progress Report of the IEC related the efforts to prepare a consolidated set of requirements for collection on East-West trade. IEC discussions revealed that an underlying cause for inadequate intelligence to serve the needs of EDAC was (and continues to be) the low priority assigned to collection of this type of intelligence by covert collectors. This situation prevailed during the report period despite the establishment by the IAD on 5 August 1953 of a revised Priority List of Critical National Intelligence Objectives (IAC-D-50/2). Objective No. 8 of this List could be used as the basis for an intensified effort to collect such type information, but there is not indication as yet that the intelligence agencies have done so. Improved intelligence collection is an urgent matter in terms of the needs of the enforcement program under NSC 152/3 for adequate and timely intelligence on diversions of strategic commodities to the Soviet bloc. Only if such information is available to be adequately appraised, also, of the benefits of decontrol to the war potential of the Soviet bloc.